

17. Wisconsin Net Operating Loss (Renumber s. 71.02(2)(m) to 71.02(2)(j) and ~~71.05(1)(d)~~ to ~~71.05(1)(d)1~~ and amend ss. 71.02(2)(j) and 71.05(1)(d)1 as renumbered, create s. 71.05(1)(d)2, effective dates are indicated below.)

- a. Beginning with the 1986 tax year, "Wisconsin net operating loss" of persons other than corporations means "federal net operating loss" adjusted as prescribed in s. 71.05(1), (4) and (5), except that no deductions allowable on Schedule A for federal income tax purposes are allowable.

There shall be added to Wisconsin income any amount deducted as a federal net operating loss carryover. There shall be subtracted for the first tax year for which the subtraction may be made any allowable Wisconsin net operating loss carryforward, not to exceed Wisconsin taxable income before the deduction of the Wisconsin net operating loss carryforward.

A Wisconsin net operating loss may be carried forward against Wisconsin taxable incomes of the next 15 years to the extent not offset against other income of the year of the loss and to the extent not offset against Wisconsin modified taxable income of any year between the loss year and the tax year for which the loss carryforward is claimed.

"Wisconsin modified taxable income" means Wisconsin adjusted gross income less the Wisconsin standard deduction, with the following exceptions:

- (1) A net operating loss deduction or offset for the loss year or any tax year thereafter is not allowed.
- (2) The deduction for long-term capital gains under section 1202 of the Internal Revenue Code is not allowed.
- (3) The amount deductible for losses from sales or exchanges of capital assets may not exceed the amount includable in income for gains from sales or exchanges of capital assets.
- (4) Wisconsin modified taxable income may not be less than zero.

- b. The 15-year loss carryforward provision applies to losses incurred in the 1980 tax year and thereafter.

18. Change Personal Exemption Credits (Repeal s. 71.09(6p)(c) and (d)(intro.), consolidate, renumber and amend s. 71.09(6p)(d)1 and 2 to 71.09(6p)(d), amend ss. 71.08(4) and 71.09(6p)(intro.), (a) and (b), effective for 1986 tax year and thereafter.)

Beginning with the 1986 tax year, the \$20 personal exemption for the taxpayer, the \$20 exemption for the taxpayer's spouse and the \$20 exemption for head of family may no longer be claimed. Exemptions are allowed as follows:

- a. An exemption of \$25 is allowed if the taxpayer has reached the age of 65 prior to the close of the calendar or fiscal year.
- b. An exemption of \$50 is allowed for each person for whom the taxpayer is entitled to an exemption under section 151(e) of the Internal Revenue Code.

- c. Personal exemptions for part year residents and nonresidents are limited to the fraction of the amount so determined that Wisconsin adjusted gross income is of federal adjusted gross income. For married persons filing separately, "adjusted gross income" means the separate adjusted gross income of each spouse. For married persons filing jointly, "adjusted gross income" means the total adjusted gross income of both spouses.

If a person and that person's spouse are not both domiciled in Wisconsin during the entire tax year, their personal exemptions on a joint return are determined by multiplying the personal exemption that would be available to each of them if they were both domiciled in Wisconsin during the entire tax year by a fraction the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

19. Amend Married Persons' Credit (Amend s. 71.09(7m), effective for 1986 tax year and thereafter.)

Married persons filing a joint return may claim as a credit against, but not to exceed the amount of, Wisconsin net income taxes otherwise due, an amount equal to 2.5% of the earned income of the spouse with the lower earned income. The credit may not exceed \$450.

"Earned income" means wages, salaries, tips, other employe compensation and net earnings from self-employment allocable to Wisconsin under s. 71.07.

Earned income is computed notwithstanding the fact that each spouse owns an undivided one-half interest in the whole of the marital property.

A marital property agreement under s. 766.58 transferring income between spouses has no effect in computing earned income.

20. Provide Itemized Deductions Credit (Create s. 71.09(6r), effective for 1986 tax year and thereafter.)

For the 1986 tax year and thereafter, single persons, married persons filing separately and married persons filing jointly may claim as a credit against, but not to exceed the amount of, Wisconsin net income taxes due, an amount calculated as follows:

- a. Add the following amounts:

- (1) The amount of interest allowed as an itemized deduction under section 163 of the Internal Revenue Code and paid on a loan to purchase or refinance a residence in Wisconsin or paid on a land contract in respect to a residence in Wisconsin.
- (2) For members of the United States Congress, the amount of interest allowed as an itemized deduction under section 163 of the Internal Revenue Code and paid to purchase or refinance a residence in or near Washington, D.C. or paid on a land contract in respect to such a residence.

- (3) For tax years 1986 to 1988 only, the amount of interest allowed as an itemized deduction under section 163 of the Internal Revenue Code and paid by an employe on a loan to purchase stock in an employe-owned business, as defined in s. 560.16(1)(c), from which that employe receives at least 50% of that employe's wage and salary income.
 - (4) The amount of interest, up to \$1,200, allowed as an itemized deduction under section 163 of the Internal Revenue Code and not paid on a loan to purchase or refinance a residence or paid on a land contract in respect to a residence or paid to purchase stock in the corporation from which the employe receives at least 50% of that employe's wage and salary income.
 - (5) The deduction for charitable contributions under section 170 of the Internal Revenue Code.
 - (6) The medical expenses allowed under section 213 of the Internal Revenue Code.
 - (7) Any amount expended by an adoptive parent or a prospective adoptive parent in adoption fees, court costs or legal fees relating to the adoption of a child, whether or not the adoption process is completed, to the extent that this amount, when added to allowable medical deductions under section 213 of the Internal Revenue Code, exceeds 5% of the person's federal adjusted gross income.
- b. Subtract the standard deduction under s. 71.02(2)(km)2m from the amount determined under Part a.
 - c. Multiply the amount determined under Part b by 5%.
 - d. For part year residents and nonresidents of Wisconsin, the credit is limited to the fraction of the amount so determined that Wisconsin adjusted gross income is of federal adjusted gross income. For married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse. For married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses.
21. Child and Dependent Care Credit (Repeal s. 71.09(12c), amend s. 71.09(12c)(a) and (b), effective dates are indicated below.)
- a. For the 1985 tax year, the Wisconsin child and dependent care credit is equal to 30% of the federal credit as computed under section 21 of the Internal Revenue Code in effect on December 31, 1984.

The reference to the Code in s. 71.09(12c)(a) and (b) was changed from section 44A to section 21. This amendment, which is required because the federal Tax Reform Act of 1984 changed the reference from section 44A to 21, does not affect the computation of the credit.
 - b. Beginning with the 1986 tax year, the child and dependent care credit may no longer be claimed for Wisconsin purposes.

22. Community Development Finance Authority Credit for Individuals (Amend s. 71.09(12m)(a) and (b), effective dates are indicated below.)

- a. Beginning with credits available in the 1984 tax year, any unused community development credit may be carried forward 15 years. Under prior law, the credit could be carried forward indefinitely until completely used up.
- b. Beginning with the 1986 tax year, an individual may no longer claim a credit against Wisconsin income taxes for making a contribution to the community development finance authority and purchasing common stock or a partnership interest in the community development finance company.

23. Research Credits (Repeal ss. 71.05(1)(a)16 and 71.09(12r)(c), amend ss. 71.09(12r)(a), (b), (c), (g) and (L) and 71.09(12rf)(a), effective dates are indicated below.)

- a. Increase Carryforward to 15 Years (s. 71.09(12r)(g)).

The carryforward for both research credits (for research expenses and research facilities) is increased to 15 years. (Under prior law, the credit could be carried forward 7 years.) The 15 year carryforward applies to credits available in the 1984 tax year and thereafter.

- b. Change Reference to Internal Revenue Code (s. 71.09(12r)(a), (b) and (c), s. 71.09(12rf)(a)).

For the 1985 tax year, the reference to the Internal Revenue Code in s. 71.09(12r)(a), (b) and (c) and s. 71.09(12rf)(a) is changed from section 44F to section 30. This amendment, which is required because the federal Tax Reform Act of 1984 changed the reference from section 44F to 30, does not affect the computation of the credits.

- c. Eliminate Unneeded Language (s. 71.09(12r)(a)).

The language in s. 71.09(12r)(a) relating to "base period" for 1984 is not needed for 1985 and is therefore eliminated from the Statutes.

- d. Deny Credits to Individuals, Partners, Tax-Option Corporation Shareholders (s. 71.09(12r)(L)).

The following changes are effective for the 1986 tax year and thereafter:

- (1) The credits for qualified research expenses and research facility costs may only be claimed by corporations. Individuals may no longer claim these credits.
- (2) The research credits may not be claimed by a partnership or tax-option corporation or by partners or shareholders of a tax-option corporation.

24. Earned Income Credit (Repeal s. 71.09(12t), amend s. 71.09(12t)(a) and (b), effective dates are indicated below.)

- a. For the 1985 tax year, the Wisconsin earned income credit is equal to 30% of the federal credit as computed under section 32 of the Internal Revenue Code in effect on December 31, 1984.

The reference to the Code in s. 71.09(12t)(a) and (b) was changed from section 43 to section 32. This amendment, which is required because the federal Tax Reform Act of 1984 changed the reference from section 43 to 32, does not affect the computation of the credit.

- b. Beginning with the 1986 tax year, the earned income credit may no longer be claimed for Wisconsin purposes.

25. Property Tax and Rent Credits (Repeal s. 71.53, create s. 71.54, effective dates are indicated below.)

- a. Repeal 10% Credit.

Under prior law, full year and part year residents were allowed a 10% credit against Wisconsin net income taxes based on property taxes or rent paid for a principal dwelling. Beginning with the 1986 tax year, this credit is no longer allowed.

- b. Allow 7.9% Credit.

For the 1986 tax year, a one-time credit equal to 7.9% of property taxes or rent constituting property taxes for a principal dwelling may be claimed against, but not to exceed the amount of, Wisconsin net income taxes due. The credit is allowed for up to \$2,000 of property taxes and rent constituting property taxes.

For an unmarried person or a married person filing a separate return who is a part year resident of Wisconsin, the credit is limited to that fraction of the amount determined that Wisconsin adjusted gross income is of federal adjusted gross income. No credit is allowed to nonresidents of Wisconsin. If both spouses are not domiciled in Wisconsin during the entire tax year, the credit on a joint return is determined by multiplying the Wisconsin property tax and rent credit that would be available to them if both spouses were domiciled in Wisconsin during the entire tax year by a fraction the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

26. Define "Married Person" or "Spouse" (Create s. 71.02(2)(eg), effective for 1986 tax year and thereafter.)

"Married person" or "spouse" means a person considered married under section 143(a) of the Internal Revenue Code. For Wisconsin tax purposes, a decree of divorce, annulment or legal separation terminates the marriage and the application of marital property law to property of the spouses after the date of the decree, unless the decree provides otherwise.

27. Change Filing Requirements for Individuals (Amend s. 71.10(2)(a)5.a, effective for 1986 tax year and thereafter.)

The filing requirements for persons who are domiciled in Wisconsin during the entire tax year are as follows:

a. Single persons.

(1) Under age 65 - gross income of \$5,200 or more.

(2) Age 65 or over - gross income of \$5,700 or more.

b. Married persons filing jointly.

(1) Both spouses under age 65 - joint gross income of \$7,200 or more.

(2) One spouse age 65 or over - joint gross income of \$7,700 or more.

(3) Both spouses age 65 or over - joint gross income of \$8,200 or more.

c. Married persons filing separately - gross income of \$3,420 or more.

The Department of Revenue will annually adjust the dollar amounts of the filing requirements to reflect changes in the standard deduction under s. 71.02(2)(kr).

28. Change Tax Rates and Brackets (Repeal s. 71.09(1c) and (1d), create s. 71.09(1e) and (1f), effective for 1986 tax year and thereafter.)

a. The tax rates for single persons and all fiduciaries are as follows:

(1) On all taxable income from \$0 to \$7,500, 5%.

(2) On all taxable income exceeding \$7,500 but not exceeding \$15,000, 6.6%.

(3) On all taxable income exceeding \$15,000 but not exceeding \$30,000, 7.5%.

(4) On all taxable income exceeding \$30,000, 7.9%.

b. The tax rates for married persons filing jointly are as follows:

(1) On all taxable income from \$0 to \$10,000, 5%.

(2) On all taxable income exceeding \$10,000 but not exceeding \$20,000, 6.6%.

(3) On all taxable income exceeding \$20,000 but not exceeding \$40,000, 7.5%.

(4) On all taxable income exceeding \$40,000, 7.9%.

c. The tax rates for married persons filing separately are as follows:

- (1) On all taxable income from \$0 to \$5,000, 5%.
- (2) On all taxable income exceeding \$5,000 but not exceeding \$10,000, 6.6%.
- (3) On all taxable income exceeding \$10,000 but not exceeding \$20,000, 7.5%.
- (4) On all taxable income exceeding \$20,000, 7.9%.

29. Index Tax Brackets (Repeal s. 71.09(2c), amend s. 71.09(2), create s. 71.09(2e) and (2f), effective dates are indicated below.)

- a. Effective for the 1986 tax year, the provision for indexing the brackets for single and married persons established by 1983 Wisconsin Act 186 is repealed.
- b. Beginning with the 1987 tax year, the income tax brackets will be indexed for the increase in the consumer price index between June of the current year and June of the previous year that exceeds 3%. The brackets may not be increased by more than 7% or decreased by any amount. The percentage change in the consumer price index will be rounded to the nearest one-tenth of a percentage point and the revised income tax brackets will be rounded to the nearest \$10.

There will be no indexing if the actual general purpose revenues balance for the preceding fiscal year is less than the required 1% statutory balance (odd-numbered years) or, when substituted for the gross June 30 balance in the general fund summary, yields a biennial closing balance less than the required 1% statutory balance (even-numbered years).

The income tax brackets for married persons filing separately will be one-half of the brackets for married persons filing jointly.

30. Revise Sections Included in the Order of Computations (Repeal s. 71.65(1)(b), (d), (e), (f), (i), (j) and (k), create s. 71.65(1)(cm) and (dm), effective for 1986 tax year and thereafter.)

Beginning with the 1986 tax year, the computation of tax liability shall be made in the following order:

- a. Tax under s. 71.09(1b), (1e) or (1f).
- b. Personal exemptions.
- c. Itemized deductions credit.
- d. Property tax and rent credit under s. 71.54.
- e. Married persons' credit.
- f. Minimum tax.
- g. Payments to other states.
- h. The total of farmland preservation credit, homestead credit, estimated tax payments and taxes withheld.

31. Minimum Tax (Amend s. 71.60(1)(c), repeal and recreate s. 71.60(1) and (2), create s. 71.60(4) and (5), effective dates are indicated below.)

a. Update Reference to Internal Revenue Code.

For the 1985 tax year, the term "Internal Revenue Code" as used in the Wisconsin minimum tax provisions means the Internal Revenue Code in effect on December 31, 1984.

b. Modify Minimum Tax Computations.

Effective for the 1986 tax year and thereafter, the 5% add-on minimum tax is repealed and a new Wisconsin minimum tax based on the federal alternative minimum tax is imposed. The new minimum tax applies to natural persons, trusts and estates, and is equal to 55% of the federal alternative minimum tax owed under section 55 of the Internal Revenue Code. The Wisconsin minimum tax is added to the taxpayer's Wisconsin income tax otherwise due.

Married persons who file a joint Wisconsin income tax return must compute the minimum tax jointly. They are jointly and severally liable for the tax due and for interest, penalties, fees, additions to tax and additional assessments with respect to the tax.

Part year residents and nonresidents will determine the minimum tax allocable to Wisconsin by multiplying the federal alternative minimum tax by 55%, and prorating the result in the ratio of Wisconsin adjusted gross income to federal adjusted gross income.

The tax benefit rule contained in section 58(h) of the Internal Revenue Code applies to the Wisconsin minimum tax only to the extent that it determines whether there is a federal minimum tax. No separate tax benefit rule is allowable for the Wisconsin minimum tax.

32. Amend Designation to the Wisconsin Election Campaign Fund (Amend s. 71.095(1) and (2), effective for 1985 tax year and thereafter.)

Every individual filing an income tax return who has a tax liability or is entitled to a tax refund may designate \$1 for the Wisconsin election campaign fund. On a joint return, each individual may designate \$1.

33. Repeal Surplus Language (Repeal ss. 71.03(7), 71.05(1)(a)2, 5, 6, 11, 12, 13, 23 and 25, 71.05(1)(b)2, 6 and 8, 71.05(1)(j), (k) and (L) and 71.05(3)(h), effective for 1986 tax year and thereafter.)

The following sections are repealed in order to eliminate surplus language:

- a. 71.03(7) - capital gain exclusion on conversions of marital and individual property
- b. 71.05(1)(a)2 - capital gain exclusion
- c. 71.05(1)(a)5 - gain on sale of principal residence when replacement residence is located out-of-state
- d. 71.05(1)(a)6 - capital gains on involuntary conversions
- e. 71.05(1)(a)11 - all-savers certificates

- f. 71.05(1)(a)12 - public utility dividend reinvestment
- g. 71.05(1)(a)13 - sale of assets with a Wisconsin situs
- h. 71.05(1)(a)23 - partial interest exclusion
- i. 71.05(1)(a)25 - capital loss not recognized under s. 71.03(7)
- j. 71.05(1)(b)2 - interest on accumulation distributions
- k. 71.05(1)(b)6 - 1975 individual retirement account deduction
- l. 71.05(1)(b)8 - capital gain not recognized under s. 71.03(7)
- m. 71.05(1)(j) - capital loss
- n. 71.05(1)(k) - unemployment compensation
- o. 71.05(1)(L) - gain on sale of residence
- p. 71.05(3)(h) - spousal individual retirement account

34. Eliminate Surplus Renewable Energy Resource System Credit Language (Repeal s. 71.09(12), effective July 20, 1985.)

The statutory language relating to the renewable energy resource system credit, which credit was previously allowed to individuals in 1977 and 1978, has been repealed since the credit no longer applies.

C. CORPORATION FRANCHISE/INCOME TAXES

1. Increase Net Business Loss Carryforward to 15 Years (Amend s. 71.06(1), effective for losses incurred in 1980 tax year and thereafter.)

The net operating loss carryforward for corporations is increased to 15 years. Under prior law, the net business loss carryforward was 5 years.

2. Increase Manufacturer's Sales Tax Credit Carryforward to 15 Years (Amend s. 71.043(3), effective for credits accrued in 1980 tax year and thereafter.)

The manufacturer's sales tax credit carryforward for corporations is increased to 15 years. Under prior law, the carryforward was 5 years.

3. Limit Community Development Finance Authority Credit Carryforward to 15 Years (Amend s. 71.09(12m)(b), effective for credits available in 1984 tax year and thereafter.)

The community development finance authority credit may be carried forward 15 years. Under prior law, the credit could be carried forward indefinitely until completely used up.

4. Disallow Deduction for Certain Entertainment, Gift and Travel Expenses (Create ss. 71.01(4)(a)6m and 71.04(2)(b)11 to 17, effective for 1986 tax year and thereafter.)

Beginning with the 1986 tax year, the following expenses may not be claimed for Wisconsin income tax purposes:

- a. Expenses allowable under section 274 of the Internal Revenue Code with respect to an activity, except admissions to an organized athletic event or other public event or performance that takes place in Wisconsin, that is of the type generally considered to constitute entertainment, amusement or recreation, or with respect to a facility

used in connection with those activities, except to the extent that food, beverage and facility expenses are allowed as a deduction under Part c.

- b. Business gifts allowable as a deduction under section 274 of the Internal Revenue Code, except for gifts of Wisconsin agricultural commodities, as defined under s. 96.01(3), made directly or indirectly to any individual to the extent that those gifts of Wisconsin agricultural commodities when added to prior expenses of the taxpayer for gifts of Wisconsin agricultural commodities made to that individual during the same tax year do not exceed \$15.
 - c. All business meal expenses allowable under section 274 of the Internal Revenue Code that are not incurred in a clear business setting, and 50% of the excess, including tax and gratuities, over \$25 times the number of persons participating in the meal, except expenses for food and beverages furnished primarily for employes on the taxpayer's premises.
 - d. Business travel expenses allowable under section 162, 212 or 274 of the Internal Revenue Code for trips lasting one year or more in one city.
 - e. Business travel expenses allowable under section 162, 212 or 274 of the Internal Revenue Code for travel by luxury water transportation in excess of otherwise available business transportation.
 - f. Travel expenses allowable under section 162, 212, or 274 of the Internal Revenue Code for conventions, meetings or seminars held on cruise ships and not treated as income.
 - g. Business travel expenses allowable under section 162, 212 or 274 of the Internal Revenue Code for travel as a form of education.
5. Disallow ACRS Depreciation on Residential Real Property and on Certain Property Used in Farming (Amend s. 71.04(15)(b) and (fm), create s. 71.04(15)(br) and (ep), effective for property acquired in 1986 tax year and thereafter.)

For the following property acquired in the 1986 tax year and thereafter, depreciation must be computed under the Internal Revenue Code in effect on December 31, 1980:

- a. Residential real property.
- b. Property used in farming, as defined in section 464(e)(1) of the Internal Revenue Code, if the corporation's Wisconsin gross farm receipts or sales exceeds \$155,000 for tax year 1986. For tax year 1987 and thereafter, the dollar amount shall be indexed under s. 71.09(2) without regard to s. 71.09(2e).

For such property acquired in 1986 and thereafter by any corporation that has, in any year before it derives any income with a Wisconsin situs for Wisconsin income or franchise tax purposes, taken depreciation or amortization for federal tax purposes, the Wisconsin adjusted basis, as of the beginning of the income year in which the corporation begins operations in Wisconsin, shall be the adjusted basis that would have been computed under the depreciation provisions of the Internal Revenue Code in effect on December 31, 1980.